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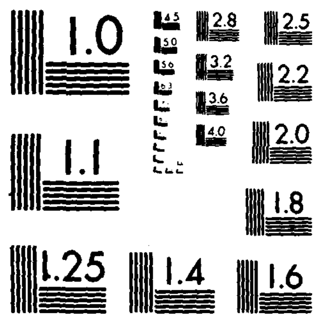

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION

DECEMBER 10, 1981

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The Honorable Andrew L. Lewis, Jr.
The Secretary of Transportation

Dear Mr. Secretary:

Subject: Internal Controls at Department of Transportation's Federal Highway Administration (AFMD-82-22)

This report contains the results of our survey of accounting controls over revenue and expenditures of nine accounting stations within the Department of Transportation's Federal Highway Administration (FHWA). Included were seven regional stations, one project office, and the Finance Division at headquarters. We also visited a Division office in each region and two other project offices because they performed some accounting functions. The survey identified weaknesses in internal controls over accounts receivable, collections, disbursements, imprest funds, and obligations. In addition, we noted a lack of audits of internal control procedures by your auditors. We are informing you of these weaknesses to help you discharge your responsibilities under 31 U.S.C. 66 (a), which requires agency heads to provide effective control over and accountability for all funds for which they are responsible.

Our survey was based on questionnaires designed to identify potential internal control problems and on interviews and discussions with accounting station officials. When responses indicated potential weaknesses, we tested selected transactions to determine if the weaknesses existed, but we did not attempt to establish their extent or the precise corrective actions needed. The weaknesses are discussed in enclosure I and their locations are shown in enclosure II.

We discussed our survey results with responsible accounting station and headquarters officials and, in most instances, they initiated or promised corrective action. However, because the weaknesses were widespread, we are recommending that you issue appropriate instructions to ensure that followup actions are taken to correct the weaknesses we have identified and that all established control procedures are followed. We are also recommending

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that you instruct your Inspector General to provide increased audit coverage of the Federal Highway Administration's internal financial operations.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending a copy of this report to the Administrator of the Federal Highway Administration. We are also providing a copy to your Inspector General.

We appreciate the courtesies and cooperation extended to us at each location visited.

Sincerely yours,

W. D. Campbell

W. D. Campbell
Acting Director

Enclosures

GAO OBSERVATIONS ON QUESTIONNAIRE RESPONSES

AT ACCOUNTING STATIONS OF THE

FEDERAL HIGHWAY ADMINISTRATION

The Accounting and Auditing Act of 1950 (31 U.S.C. 66a) requires the head of each executive agency to establish and maintain a system of accounting and internal controls for all of the agency's assets. Our survey evaluated controls at nine Federal Highway Administration (FHWA) accounting stations including headquarters, one project office, and seven regional offices. We also visited a Division office in each region and two other project offices that performed some accounting functions. Our survey disclosed that:

--Collections were not adequately controlled at many accounting stations. Collections were not properly logged in, correctly accounted for, or adequately safeguarded; duties of employees were not adequately divided between handling of collections and other functions; and collections were not promptly deposited.

--Accounts receivable were improperly handled at most FHWA offices; they were not recorded in the accounting records or included in periodic aging schedules.

--Travel advances were not properly managed at several FHWA offices; they were not periodically reviewed or promptly recovered.

--Disbursement controls were weak at most locations; vouchers were not adequately preaudited, payments were often not scheduled to coincide with due dates, and reasons for lost cash discounts were not documented.

--Government Transportation Requests (GTRs) were ineffectively controlled at several offices; they were not adequately safeguarded or periodically reconciled.

--Imprest funds at most locations were not properly managed; they were not adequately safeguarded, basic control procedures were not in use, and rev[illegible] of the funds were insufficient.

--Obligations were not adequately controlled at some locations; they were not properly documented, promptly recorded, or periodically reviewed.

--Internal audit coverage of financial management functions was insufficient.

These internal control weaknesses, most of which existed at several accounting stations, are discussed in more detail below. The locations at which the weaknesses existed are identified in enclosure II.

NEED TO IMPROVE CONTROL OVER COLLECTIONS

The GAO Policies and Procedures Manual for Guidance of Federal Agencies (7 GAO 11.1 and 12.2) specifies that agencies shall place cash collections under appropriate accounting and physical control upon receipt and shall deposit these collections promptly. To a varying extent all the accounting stations we reviewed were not complying with these requirements, thereby risking loss or misuse. These offices were collecting over $2.4 million monthly.

Collections not logged in and handled properly

Cash and checks received through the mail or over the counter are inherently susceptible to loss, theft, or other misuse. Because of this, the GAO manual specifies that agency collections should be placed under appropriate accounting control as soon as they are received. Such controls should, among other things, provide for collections to be logged in upon receipt and properly accounted for until deposited. Although the Transportation Department has established procedures for controlling collections, they were not being followed at most stations we reviewed.

To illustrate, four accounting stations and one substation did not always record collections immediately upon receipt, while at another station collection logs for a 6-month period were missing. Two stations did not always use receipts to accompany checks from one processing point to another. When remittance controls are not established at a central point and collection transfers are not receipted, full accounting of collections cannot be ensured.

Further, at three accounting stations collections were not always forwarded directly to the accounting office by the person opening the mail. For example, at the regional office in Portland, Oregon, civil penalty checks received from motor carriers were sent by the mailroom to the regional counsel's office and then the checks were forwarded to the accounting section at the Vancouver, Washington, project office. Likewise, at FHWA headquarters, civil penalty checks were handled by two other offices before being sent to the accounting office for deposit. Our review of nine headquarters civil penalty checks totaling over $27,000 revealed that they were held by these offices from 7 to 24 days. This practice not only increases the potential for receipts to be lost or stolen but also causes delayed deposits.

To ensure that all receipts are subsequently processed and deposited, collection logs should be periodically reconciled to deposit records. Four accounting stations did not perform such reconciliations. Local procedures at another office specified

that monthly reconciliations should be performed, but at the time of our review the reconciliations had not been done for 5 months.

Collections not adequately safeguarded

Because currency and checks are highly susceptible to improper conversion and loss, control procedures should provide for adequate physical security measures. Eight of the accounting stations we visited, however, did not maintain adequate physical security over collections. At five of these offices collections were not stored in a safe or combination lock file cabinet as required by Department procedures, while at all eight offices more than one person had access to the container where collections were stored. These conditions allow easy access to collections and increase the risk of loss. The following examples illustrate what we found.

--Collections at two offices were stored in a locked file cabinet until deposited. The cabinet key was kept in an unlocked desk drawer nearby.

--At another office, civil penalty checks arriving in the afternoon mail were stored overnight or over weekends in a desk drawer in the regional counsel's office. Although other collections were stored in a safe, the combination was known by at least three people.

--Although FHWA headquarters stored collections in a safe, the combination had not been changed in 5 years and was known by at least five employees. On one occasion we observed the safe unlocked and the room unattended.

Collection duties not properly segregated

One of the basic principles of internal control is to divide critical functions between two or more persons, a technique often referred to as separation of duties. Errors are more likely to be detected when duties are separated, and fraud is less likely to occur when its success depends on collusion. The GAO manual (7 GAO 11.2) states that persons responsible for handling cash receipts should not participate in accounting or operating functions which would permit them to conceal the misuse of cash receipts.

At six accounting stations we visited, duties of employees handling collections and other functions were not adequately segregated to ensure effective control over receipts. For example, at one office an imprest fund cashier mailed out bills, maintained accounts receivable records, and had access to both collections and the collections log. At another location the same person recorded collections and prepared deposit tickets. At a third office the records did not identify the employees who had performed reconciliations between collection logs and accounting documents. As a result, assurance was lacking that these individuals were independent of the activities being reconciled.

Collections not deposited promptly

When collections are not deposited promptly, access to the funds by the Treasury is delayed and the potential for loss, theft, or misuse of the funds is increased. Undue delays in depositing moneys collected mean the Treasury is denied use of the funds for that time and, as a result, must borrow--increasing the Government's interest costs.

According to standards in the GAO manual (7 GAO 12.2), collections should be deposited daily, if possible. The Treasury manual (1 TFRM 6-8030) states that collections of $1,000 or more should be deposited daily but that smaller collections may be accumulated and deposited when the total reaches $1,000. Still, deposits must be made at least weekly regardless of the amount accumulated.

Eight FHWA accounting stations we reviewed were not depositing their collections as frequently as required. For example, at one office a review of 16 checks of $1,000 or more revealed that they were deposted from 1 to 9 days after receipt. A check for $149,000 was not deposited until 3 days after receipt. At another location we examined deposit documents for 18 checks totaling over $3 million and found that $1.4 million of those checks were not deposited until 2 to 5 days after receipt. Our review of deposits made during a 2-month period at a third office disclosed that individual checks were held up to 13 days before they were mailed for deposit.

Deposits were also delayed because accounting stations mailed collections to the nearest Federal Reserve Bank rather than use a commercial bank nearby. For example, FHWA headquarters mailed deposits to the Federal Reserve Bank in Richmond, Virginia, while the Albany regional office sent collections to the New York City Federal Reserve Bank. The Federal Reserve took as long as 12 days before acknowledging receipt of checks deposited in this manner. Although Treasury requires that deposits be made at the nearest Federal Reserve Bank, it also permits agencies to make them in a general depository if one is located near the depositor and if it is specifically authorized by the Treasury to accept deposits.

FHWA officials acknowledged the weaknesses discussed above and agreed to take appropriate action. They also agreed to explore the possibility of depositing checks locally to speed up the process.

NEED TO RECORD ACCOUNTS RECEIVABLE IN THE ACCOUNTING RECORDS

Accounts receivable represent amounts due from operations and therefore are Government assets to be controlled, safeguarded, and--most importantly--collected. The GAO manual (2 GAO 12.4) emphasizes the importance of controlling accounts receivable, stating that they should be recorded accurately and as soon as the acts

entitling an agency to collect the amounts involved are completed. When amounts due are not recorded in the appropriate records, the agency's financial statements and reports will be incomplete, and management will not be in an informed position to take the actions necessary to ensure collections of all moneys owed the agency. However, at 13 locations we found that amounts due, such as civil penalty fees, costs disallowed as a result of audit, or rental income earned on right-of-way land were not recorded in the agency accounting records.

Penalties assessed against motor carriers not recorded

FHWA regional counsels assess and collect penalties against motor carriers for violations of Federal motor carrier regulations, while attorneys at headquarters have similar responsibilities related to Federal hazardous material regulations. During fiscal 1980 FHWA assessed almost $1.2 million in penalties. According to FHWA officials, carriers usually pay the fine when a settlement is agreed to, but in some cases the agreements provide for payment to be made at a later date or in installments. Although amounts owed under these circumstances were significant, they were not recorded as accounts receivable. For example, at FHWA headquarters almost $183,000 in penalties due from motor carriers was not recorded as accounts receivable at the time of our review. At another accounting station, unrecorded receivables due from motor carriers totaled over $25,000. Generally, receivables were not established because the FHWA regional counsels did not inform finance officials of the indebtedness.

Audit disallowances not recorded

Receivables related to Federal aid to the States for highway programs are often created when completed projects are audited. For example, auditors may take exception to costs claimed by a State. If FHWA management agrees with the auditors and disallows the amount in question, it becomes a receivable and should be recorded in the agency's accounting records. Although the Department of Transportation requires that accounting and collection controls over disallowed amounts be established, FHWA has not implemented procedures to do so. To illustrate:

--Officials at one Division office had no evidence to support a State's claim that it had offset a $205,000 audit disallowance. Documents subsequently obtained from the State during our visit indicated that the debt was repaid. However, more than 2 months had elapsed between the time the costs were disallowed and the debt was recovered, and during that time the debt was not reflected on FHWA's accounting records as a receivable.

--The office mentioned above was attempting to recover a $1.4 million audit disallowance by allowing the State to

adjust downward its current year's overhead rate. This method of recovery is contrary to Federal claims collection standards. The debt was never entered as a receivable in the FHWA accounting records, and as a result, officials did not know how much of this receivable had been repaid at the time of our review.

Amounts due from rental agreements not recorded

Receivables are also generated from rental income States earn on property purchased with right-of-way funds--funds FHWA advances to some States to acquire rights-of-way for future construction of highways. While awaiting plans for the construction, the State may rent or lease property it has acquired with an advance, and any net income earned should be paid to the Treasury. However, at some offices amounts due under such arrangements were not entered in the accounting records and, as a result, responsible finance officials were not aware of rentals due. For example, in April 1981, a Division office received two checks totaling $575,000 that a State had earned in rental income on right-of-way property. That sum was recovered only after an audit revealed that the State had incorrectly accounted for the income. No accounting control had ever been established to establish the amount due as due when it was earned.

Related finding by the Department of Transportation's Inspector General

A recent audit by the Department of Transportation's Office of Inspector General reported similar shortcomings in recording receivables, showing that the kinds of problems noted above are not confined to the offices we visited. The auditors reported that $152 million in costs questioned by audit and $3.7 million in fines and penalties were not under fiscal control by the Department during 1980, thus preventing timely collection and reporting. More-over, their review of 30 right-of-way projects in eight States identified over $2.2 million in net rental income that had not been paid to the Federal Government as required.

FHWA officials agreed with the concept of establishing receivables as they are generated, but they were not convinced of the need to establish a receivable for costs disallowed as a result of audit. They stated that Division offices are responsible for keeping track of audit disallowances and that existing procedures, if followed, are sufficient. We disagree because audit disallowances represent sizable amounts of Government funds and should be recorded, controlled, and collected the same as other types of accounts receivable. Moreover, Department regulations require that accounting controls be established over receivables resulting from audit disallowances.

NEED TO IMPROVE CONTROL OVER TRAVEL ADVANCES

Travel advances represent sizable amounts of Government funds--the FHWA headquarters accounting station alone reported over $309,000 outstanding as of March 31, 1981. Of this amount, more than $200,000 was outstanding over 60 days. Unless proper control is exercised over advances, funds needed for travel are unnecessarily tied up and the risk that advances might not be recovered is increased.

The GAO manual and Department of Transportation regulations specify controls needed to ensure that (1) travel advances are made only for authorized travel, (2) the size of the advances does not exceed appropriate limits, and (3) advances are cleared promptly by repayment or travel vouchers. Six accounting stations did not exercise all the required controls over travel advances made to their employees; as a result

--unjustified and excessive advances were made to employees,

--advances remained outstanding for excessive periods,

--employees left the agency without repaying advances,

--travel vouchers were not submitted as required, and

--Department of Transportation regulations limiting the size of advances from imprest funds were circumvented.

We are particularly concerned that the most serious weaknesses in control over travel advances occurred at the FHWA headquarters accounting station.

Adequate actions not taken to review, control, and recover travel advances

The GAO manual (7 GAO 25.6) provides that agency accounting systems should include procedures for periodic review and analysis of outstanding travel advances. All advances determined to be in excess of immediate needs should be promptly recovered to keep outstanding balances to a minimum.

However, five accounting stations did not exercise such control over travel advances. Advances were not periodically analyzed despite agency requirements to do so and even though data to perform such analyses were readily available. In several instances offices failed to collect outstanding travel advances from employees before employment was terminated. Further, aggressive collection action was not taken on advances known to be excessive and outstanding for long periods. For example:

--Records at one accounting station showed that 19 former employees had outstanding travel advances of over $6,000. The advances had been outstanding for as long as 50 months. Although a few of these individuals had transferred to other FHWA offices, others had terminated their employment before filing final travel vouchers or repaying advances. A station official said that demand letters were sent to some debtors from time to time. None of the debts were classified as delinquent.

--At another office 24 single trip travel advances were outstanding from 45 to 1,345 days. The accounting records also showed 62 continuous advances totaling over $11,000, yet periodic reviews were not being made to determine if these advances were justified. A station official blamed the problem on a shortage of experienced staff and a work backlog.

The FHWA headquarters accounting station was also lax in monitoring and recovering travel advances. Employees often did not adhere to Department regulations to submit travel vouchers within 5 days of completion of travel. In a number of cases, employees still had not submitted vouchers more than a year after completing travel. Even after vouchers were submitted, the station did not require employees to repay any unused amounts or did not process the vouchers promptly, and in several cases trips were canceled but the employees did not return the advances. The following examples illustrate situations we found.

--An employee received advances for six trips that were to take place during 1979 and 1980; yet at the time of our review in May 1981 no vouchers had been submitted. When questioned, the employee stated that filing vouchers was not a high priority and that the secretarial pool did not have the time to type them.

--Another employee received a $300 travel advance for an October 1980 trip. The next month the employee claimed expenses of $206 which were offset against the advance. However, the employee did not repay the remaining $94. Six months later the debt remained unpaid.

--An office director received two advances totaling $370 for a 1979 trip. Accounting records showed that only one advance was offset when the employee submitted his travel voucher. This individual had three other advances outstanding for 1980 trips; one of the trips was canceled in May of that year. No vouchers had been filed for the other two trips more than 8 months after the travel was presumed to have taken place.

--Because of slow processing by the accounting office, five employees were listed on a March 31, 1981, report as having

outstanding advances of $10,387. However, these employees had filed vouchers liquidating most of the balances as long as a year earlier.

Improper use of imprest fund for travel advances at headquarters

Transportation Department regulations allow employees to obtain travel advances of up to $150 from an imprest fund. Under emergency conditions this amount may be increased to $300. (These limits were recently increased to $250 and $500, respectively.) The reason for an emergency advance must be explained on the employee's application. We noted several instances where headquarters employees obtained advances under emergency conditions that were not justified. Often the dates of travel were not shown on the request. In five instances we found that employees received more than one advance from the fund for the same trip, apparently to circumvent the dollar limitation. For example:

--One employee received almost $900 from the imprest fund for one trip by filing three requests and submitting them on different days. Also, these advances were obtained more than 1 month before the trip was supposed to take place. The trip was canceled, but the employee did not return the advances. When we brought this case to the attention of accounting personnel they contacted the employee who returned the money the following day.

--Another employee obtained a total of $450 from the imprest fund by submitting two requests in January 1980. Although the trip was scheduled to be completed the following month, more than 14 months later the accounting office still had no record that a voucher had been submitted by the employee.

We discussed these problems with appropriate officials. They agreed that improved controls over travel advances were needed, and they promised to take corrective actions.

NEED TO IMPROVE CONTROLS OVER DISBURSEMENTS

Most FHWA accounting station disbursing operations we reviewed did not conform to Treasury and GAO requirements and, as a result, Federal funds were being unnecessarily exposed to the risk of loss, theft, or other misuse. Moreover, the Government's operating costs were needlessly increased because the disbursement activities did not conform to principles of sound cash management.

Legality, propriety, and accuracy of disbursements should be checked before payments are made

Because disbursement transactions are susceptible to misuse and diversion, GAO, Treasury, and the Department of Transportation

provide extensive guidance to help ensure the propriety, acccuracy, and legality of disbursements. For example, the GAO manual (7 GAO 24.2) requires a preaudit of vouchers before they are certified for payment. This examination should include, among other things, (1) verification of the accuracy of the data on the voucher, (2) a check that the vouchers and supporting documents were properly authorized, and (3) a determination that the transaction was legal and the goods and services were received.

Despite these requirements we noted that 12 offices did not adequately review disbursement documents before authorizing payment. At one accounting station, invoices were sometimes paid even though no receiving report was made or the receiving report was unsigned. Another office did not mark vouchers and supporting documents with a paid legend to prevent duplicate payments.

At two offices certain types of payments were not adequately reviewed. At one of these offices we were told that travel vouchers were not preaudited because of a shortage of staff. The other office did not sufficiently verify charges for vehicles rented from the General Services Administration. Accounting personnel verified mileage but did not determine the accuracy of the mileage charge or the monthly rental rate.

Three Division offices did not determine whether ineligible expenditures were offset from State claims for Federal aid reimbursement. For example:

--A Division office received copies of audits performed by State auditors of third parties. In fiscal 1980, costs questioned as a result of these audits amounted to $744,000. Division officials could not tell us how much of this amount was disallowed or whether disallowed amounts involving Federal funds were deducted from State reimbursement requests.

--Although we were told at another Division office that State reimbursement claims were checked to ensure that disallowed costs were offset, when we asked about specific disallowances the Division was unable to determine if credits had in fact been received.

At a fourth Division office, records used to keep track of ineligible costs were incomplete and inaccurate. Therefore, FHWA officials could not be assured that reimbursement for ineligible expenditures were not made to the State.

At five accounting stations, voucher examiners did not have a list of officials authorized to approve various transaction documents. Therefore, the examiners could not be assured that all payments were authorized. At one of these stations we observed that authorizing signatures on vouchers and supporting payment documents often were illegible, did not show the approving official's title, or were those of individuals signing for someone else.

At another station, contrary to FHWA procedures, three employees had approved their own travel.

Adequate internal controls over disbursements should include maintaining files that show the persons authorized to approve transactions and their signatures. An adequate preaudit of vouchers should include a check of the files by accounting personnel to verify that approvals are proper. Because of the many people involved in authorizing and approving transactions, especially at FHWA headquarters, it is important that such a practice be instituted and followed.

The Transportation Department Voucher Examination Manual states that all basic vouchers, invoices, and supporting documents shall flow directly to the accounting office from the vendor or Government issuing office. Such documents must not be transmitted through an intermediate office. This procedure is necessary to ensure that independent verification and judgment may be exercised in the examination process. We noted that at FHWA headquarters contracts usually specified that invoices were to be mailed to the Office of Contracts and Procurement rather than directly to the accounting office as required. Contracting officers reviewed the invoices, determined how much to pay, and then forwarded the bills to accounting. The voucher examiner merely recorded the amount approved by the contracting officer and processed the bill for payment without any further review. This practice not only results in an absence of independent verification of the propriety, legality, and accuracy of the payment, but also may result in late payments because accounting did not know a bill was due until it was received from the procurement office.

Payments not scheduled to coincide with due dates

To avoid unnecessary borrowing costs, the Treasury requires agencies to control the timing of disbursements so that bills are paid when due--neither too early nor too late. Specifically, agencies should schedule the issuance and mailing of checks as close as administratively possible to the due date of the invoice, contract, or other agreement. If no date is specified, the due date is considered to be on the 30th day from receipt of the invoice.

Nine accounting stations and one sublocation we visited did not pay bills in accordance with Treasury's criteria. As a result, payments were made either too early or too late. For example, of 23 invoices reviewed at one station, 4 were paid from 4 to 9 days earlier than the due date while 15 invoices were paid from 14 to 117 days late. Some locations paid invoices soon after receipt, while others paid bills only during certain periods of the month. Three stations did not always date stamp invoices when received and thus were hindered from properly scheduling bills for payment when no due date was specified.

Early payments unnecessarily accelerate the flow of cash from the Treasury. For example, in a 1978 report we estimated that at least $118 million might have been saved Government-wide over a 6-month period if all early payments had been made exactly on the due date. 1/ Conversely, late payments are contrary to good business and preclude the Government from taking advantage of cash discounts offered by vendors for prompt payment.

Cash discounts not taken and lost discounts not properly documented

The GAO manual (7 GAO 24.8) requires that (1) procedures be established to ensure that vendors' invoices offering cash discounts are processed promptly so that payment may be made within the time prescribed and (2) failure to take cash discounts be fully explained on appropriate documents.

At five stations we found that cash discounts were not always taken nor were the reasons for lost discounts shown on the documents supporting disbursements. For example, our review of 15 vendor invoices offering cash discounts at one station showed that available discounts were not taken in all 15 cases. The amount lost totaled $464. At another station we sampled 18 invoices offering discounts. In two instances the discount amount was incorrectly computed. Two other discounts were lost but not explained.

We discussed the above weaknesses with FHWA officials. They generally agreed to take the necessary actions to ensure that vouchers are adequately preaudited, payments are scheduled to coincide with due dates, cash discounts are taken where possible, and lost discounts are explained on disbursement documents.

NEED TO IMPROVE CONTROL OVER GOVERNMENT TRANSPORTATION REQUESTS

The GAO manual instructs each Federal agency to develop procedures that will prevent improper or unauthorized use of Government funds, property, and other resources. Government Transportation Requests, when presented to a carrier, authorize the carrier to issue tickets to a traveler. They also authorize the carrier to bill the agency for services provided. GTRs are easily convertible for personal use and accordingly need to be properly controlled and safeguarded.

Four accounting stations we visited did not exercise adequate control over GTRs. For example, one accounting station did not perform periodic reconciliations of GTRs issued, used, and on hand.

1/"The Federal Government's Bill Payment Practices Are Good But Could Be Better," FGMSD-78-16, Feb. 24, 1978.

Another station did perform reconciliations; however, the reconciliations were inadequate because they did not determine whether GTRs issued to employees had been used, lost, or stolen and because the individual who performed the reconciliation was one of the GTR custodians.

One station did not adequately safeguard GTRs against loss or misuse. The GTRs were often stored in unlocked desk drawers and file cabinets, or if they were locked up, the key was stored nearby. In addition, the accounting records did not accurately reflect those employees who held GTRs. Unused transportation requests, like cash, should be maintained under proper physical control at all times.

NEED TO IMPROVE CONTROL OVER IMPREST FUNDS

Imprest funds are "cash on hand" funds comprising currency, coin, or Government checks advanced by a Government disbursing office to an agency imprest fund cashier. At FHWA, imprest funds are used for a variety of disbursing needs, such as payments for small purchases, travel advances, and employee reimbursements for authorized expenditures. By their nature, imprest funds provide opportunities for misuse, loss, and theft, and accordingly, should be well controlled to minimize such opportunities. At FHWA we reviewed 13 imprest funds ranging from $200 to $7,000 and found that established procedures and controls were not followed at 10 locations.

Basic control procedures not followed in day-to-day operations

Accounting control procedures to minimize opportunities for loss or misuse of imprest funds are set forth in the GAO manual, Treasury's Fiscal Requirements Manual and its Manual of Procedures and Instructions for Cashiers, and the Department of Transportation's Imprest Fund Manual. Despite the widely recognized need for accounting controls over imprest funds, some offices were not adhering to one or more basic controls for safeguarding funds. For example:

--Five offices did not adequately review their imprest funds. For example, at one office semiannual, rather than the required quarterly reviews were made. Another office performed quarterly reviews but announced them in advance, thus providing the cashier the opportunity to cover any shortage. At four offices, reviews did not include a determination that the cashier was not making unauthorized use of the funds. Also, reviews at two of these offices did not determine whether the procedures being followed were adequate to protect the funds from loss or misuse.

--Two offices had not furnished cashiers with a list of officials authorized to approve travel and purchases as required

by Transportation regulations. At another office, the cashier had such a list but had disbursed funds for small purchases without obtaining the required approval.

--Four offices did not require cashiers to stamp "paid" on subvouchers supporting disbursements from their imprest funds after payment is made. This procedure is required to reduce the potential for duplicate payments by reusing a subvoucher.

--Despite Treasury guidelines specifying that fund levels should not exceed 1 month's requirement, one office maintained a $2,500 imprest fund although monthly disbursements averaged only $1,338.

--The size of imprest funds should be limited both to minimize the amounts exposed to risk of misuse and loss and to conform to sound cash management principles.

--At one office, duties were not properly separated. The cashier and alternate cashier of the imprest fund, which was used to make purchases, were both purchasing officials. As specified in the GAO manual (7 GAO 24.5), disbursement operations should be segregated from operations and functions, such as purchasing and recording receipt of goods and services.

<u>Adequate physical security not provided</u>

Because imprest funds generally consist of cash, checks, and other negotiable instruments that are susceptible to improper use, the GAO and Treasury manuals specify standards of security that should be employed over the funds. This guidance generally provides that imprest funds containing cash, checks, and other negotiable instruments should be placed in a suitable safe or vault within the office under the exclusive control of the fund custodian. File cabinets with key locks are not considered to provide adequate security, but those with a bar and combination locks can be considered acceptable in such circumstances. Perhaps most importantly, prudence and due regard for the responsibility to safeguard public funds should guide those to whom such funds are entrusted.

Several FHWA accounting stations we reviewed were not following this guidance. For example:

--Facilities were not adequately safeguarded at one office. Treasury guidance recommends that, as a minimum, imprest funds should be stored in a cabinet with a bar and a combination lock. File cabinets with key locks are not considered adequate. At one office, the imprest fund was kept in a locked box in a locked file cabinet. However, the key to the cabinet was kept in an unlocked desk drawer and the

cash box could be opened with little force. In July 1980 the office sustained two small losses to its fund. At that time the key to the file cabinet was kept on a magnet on the cabinet's side and the key to the lock box was kept in an unlocked desk drawer.

--Four offices did not follow prescribed procedures for maintaining a record of the safe combination and a duplicate key to the cash box. The Transportation Department Imprest Fund Manual requires that the combination and duplicate key be placed in a signed, sealed, and dated envelope and put in a secure place for use in an emergency. At three offices, the envelope containing the combination record was not signed and dated. At the other office the combination record was stored in an unlocked desk drawer.

--Imprest fund subvouchers were not properly safeguarded at four locations. For example, at one accounting station, subvouchers were kept on top of a file cabinet and were accessible to anyone in the building. Because subvouchers serve as the basis for replenishment of the fund, they should be secured the same as cash.

--Contrary to Treasury requirements, both the cashier and alternate cashier at one location used the same funds. For adequate internal control, cashiers should not work from the same cash box and only the person responsible for a specific fund should have access to it.

Officials at the offices visited generally agreed to tighten controls over imprest funds by correcting the problems identified above.

NEED TO IMPROVE CONTROLS OVER OBLIGATIONS

Several offices did not follow established fund control procedures in handling obligations. Obligations specify the amounts of orders placed, contracts awarded, services rendered, or other financial commitments made by Federal agencies that will require cash outlays during the current or some future period. Stringent controls over the obligation process are essential to ensure that (1) financial records and statements are accurate and (2) funds are used efficiently and in accordance with the intent for which they were appropriated.

Controls over recording obligations not followed

The GAO manual (7 GAO 17) specifies that agencies should promptly record obligations, ensure that funds are available to provide for amounts obligated, and record the basis for calculating estimated obligations on the obligation documents. We noted that these requirements were not being met at some offices we visited.

--Two offices did not record obligations promptly; one office recorded obligations on a monthly basis, while the other did not record obligations for travel until an employee submitted a travel voucher.

--Another office did not always determine the availability of funds before incurring obligations; this practice could result in the obligation of amounts in excess of those appropriated by the Congress, a practice specifically prohibited by the Anti-Deficiency Act (31 U.S.C. 665).

--A fourth office did not always show the basis for the estimate on the obligation document as required.

Obligations not reviewed as required

The GAO manual specifies that obligation documents should be reviewed at the end of each fiscal year to (1) establish the validity of recorded obligations, (2) determine the continuing validity of older obligations, and (3) determine if recently recorded obligations are valid.

Audits by the Office of Inspector General have revealed that Division offices were not performing periodic reviews of inactive or completed Federal aid projects. As a result, Federal funds were not being released and made available for obligation on other projects. Although FHWA has taken steps to improve its monitoring and closeout of projects, we found indications at Division offices that more needs to be done.

--At one Division office we were told that no review of Federal aid project obligations was made periodically or at yearend because of limited staffing. As of March 31, 1981, this office reported 1,358 projects as completed with unused obligational authority totaling $55.2 million.

--Records at another office showed that 101 projects with unexpended balances of almost $17 million, which were completed before January 1, 1978, had not been closed out. Appropriate FHWA officials agreed that tighter controls were needed over obligations at some locations.

NEED TO PROVIDE GREATER INTERNAL AUDIT COVERAGE OF FINANCIAL OPERATIONS

In our view, adequate internal audit coverage could have detected most of the control weaknesses noted previously, thus providing management with the opportunity to take timely corrective action. Moreover, internal audits are widely recognized as a part of an agency's system of financial controls. Under section 113 of the Accounting and Auditing Act of 1950, agency heads are required to establish accounting and internal controls, including internal

audit. We noted, however, that FHWA has received very little audit coverage of its internal financial operations.

Two of the FHWA accounting stations we visited had not been audited in 3 years. Although the Office of Inspector General had performed reviews at the other stations, the reviews generally involved only a specific area, such as travel or the imprest fund. Since internal audits are a key element of internal controls, we believe FHWA's current audit coverage should be expanded. In response to our inquiries, an audit official indicated that the majority of the Office of Inspector General's audit effort is directed toward the largest expenditure of FHWA funds--Federal assistance payments to States for highway programs. While recognizing the merit of this emphasis, we believe that the audit of FHWA should provide adequate coverage of internal financial operations as well.

CONCLUSIONS AND RECOMMENDATIONS

As discussed in the preceding pages, internal control weaknesses at the FHWA are serious and extensive. On an individual basis, any one weakness at a single accounting station may not be likely to have a significant impact on the agency's financial condition. However, we believe that in the aggregate, such weaknesses are detrimental to the FHWA's overall financial operations.

In response to our findings, appropriate officials generally agreed to take corrective actions. Such actions, however, will yield significant benefits only if implemented at all accounting stations rather than just at the ones we visited. Additionally, experience has shown that constant vigilance by top management is necessary to ensure continued effective operation of any internal control. Accordingly, we recommend that the Secretary of Transportation instruct the Administrator of the Federal Highway Administration to:

--Ensure that adequate followup actions are taken to correct the weaknesses we have identified.

--Issue instructions emphasizing that the Transportation Department's fiscal procedure and instructions must be followed.

We also recommend that the Secretary of Transportation instruct the Office of Inspector General to increase its audit coverage of the Federal Highway Administration's internal financial operations with particular emphasis on internal controls.

SUMMARY OF INTERNAL CONTROL WEAKNESSES IDENTIFIED AT ACCOUNTING STATIONS OF THE FEDERAL HIGHWAY ADMINISTRATION

	Accounting stations									Sublocations								
Weaknesses noted	Headquarters	Albany, N.Y.	Arlington, Va. (note a)	Atlanta, Ga.	Denver, Co.	Forth Worth, Tx.	Homewood, Il.	Kansas City, Mo.	Portland, Or.	Albany, N.Y.	Atlanta, Ga.	Austin, Tx.	Denver, Co.	Lakewood, Co. (note a)	Jefferson City, Mo.	Madison, Wi.	Olympia, Wa.	Vancouver, Wa. (note a)
Collections and accounts receivable:																		
Collections not recorded at earliest point of receipt	x	x	x				x											x
Collection logs missing								x										
Collection transfers not receipted	x			x														
Collections not transmitted directly to the accounting office	x						x		x									
Reconciliations between receipts and deposits not performed	x	x			x		x	x										
Collections not adequately safeguarded	x	x	x		x	x	x	x	x									
Duties not properly separated	x	x	x	x		x	x											
Deposits not timely	x	x	x		x	x	x	x	x									
Inadequate system for recording receivables as they are generated	x	x		x	x	x	x	x	x	x		x			x	x	x	
Travel advances:																		
Advances not periodically reviewed or controlled	x		x	x	x	x	x											
Advances in excess of prescribed limits	x																	
Advances not properly justified	x																	
Disbursements:																		
Vouchers not adequately preaudited	x	x	x			x	x	x	x	x		x				x	x	x
Payments not scheduled to coincide with due dates	x	x	x	x	x	x	x	x	x									x
Cash discounts not taken and lost discounts not properly documented	x	x	x				x	x										
GTRs not properly controlled or safeguarded		x				x	x		x									
Imprest fund: (note b)																		
Payment documents not cancelled to prevent reuse				x			x								x	x		
Safe combination record not sufficiently safeguarded							x		x								x	x
Cashiers not provided list of authorized approving officials								x							x			
Disbursements not properly approved							x											
Subvouchers not safeguarded							x	x					x			x		
Inadequate safeguarding facilities		x																
Duties not separated																		x
Cashboxes shared															x			
Insufficient management review of fund operation		x		x				x							x	x		
Fund level exceeds needs							x											
Obligations:																		
Funds availability not determined			x															
Obligations not recorded promptly				x											x			
Estimates not adequately supported								x										
Federal aid projects not reviewed or closed out promptly										x	x							x
Internal and audit:																		
Inadequate internal audit coverage of financial operations	x	x	x	x		x	x	x	x									

a/Project office.

b/We did not review the imprest fund in Arlington, Va. The headquarters imprest fund is operated by the Office of the Secretary of Transportation and review was limited to payments certified by FHWA certifying officers. Weaknesses noted are covered under travel advances. The Forth Worth regional office and the Albany and Austin division offices did not have imprest funds..